



Project Information Document/ Integrated Safeguards Data Sheet (PID/ISDS)

Concept Stage | Date Prepared/Updated: 04-Mar-2018 | Report No: PIDISDSC23476

**BASIC INFORMATION****A. Basic Project Data**

Country Djibouti	Project ID P165558	Parent Project ID (if any)	Project Name Djibouti Support for Women and Youth Entrepreneurship (P165558)
Region MIDDLE EAST AND NORTH AFRICA	Estimated Appraisal Date Apr 12, 2018	Estimated Board Date May 23, 2018	Practice Area (Lead) Finance, Competitiveness and Innovation
Financing Instrument Investment Project Financing	Borrower(s) Republic of Djibouti - Ministry of Economy and Finance, in Charge of Industry	Implementing Agency Agence Djiboutienne de Developpement Social	

Proposed Development Objective(s)

The project's development objective is to increase access to services, finance, and markets for targeted entrepreneurs

Financing (in USD Million)**SUMMARY**

Total Project Cost	15.00
Total Financing	15.00
Financing Gap	0.00

DETAILS

Total World Bank Group Financing	15.00
World Bank Lending	15.00

Environmental Assessment Category
F-Financial Intermediary Assessment

Concept Review Decision
Track I-The review did authorize the preparation to continue



B. Introduction and Context

Country Context

1. **Djibouti is a small low-income country in a strategically important geopolitical location in the Horn of Africa.** Historically, Djibouti has been a gateway to East Africa, a maritime cross-road for trade, and a refueling and transshipment center. Its deep-water port has served as the transit point for neighboring landlocked Ethiopia and as a transshipment hub for other East African countries with fewer port facilities. In addition, Djibouti's strategic location close to major maritime transportation routes, conflict areas in the Middle East, and piracy activity zones, coupled with its relative political stability, has made it an important location for foreign military bases. As a result, its economy has long relied on port services, logistics, and rents from military bases.
2. **Under current forecasts of moderate but improving global economic conditions and with strong policy performance in Djibouti, growth is projected to remain robust, including in per capita terms.** Djibouti's economic growth in the past decade has averaged 4 percent, but fluctuated sharply from 1.6 percent during the crisis of 2009 to over 6 percent in recent years with the start of a massive investment program largely financed by borrowing from China. With an average population growth of about 2.8 percent, real growth in per capita terms has been positive for most of the period except for 2009.¹
3. **The current account deficit remains large, fueled mainly by investment-related imports.** The central government budget—which under the authorities' definition does not include two large investment projects, the water pipeline and railroad, undertaken by public enterprises—aimed at a small deficit of 0.4 percent of GDP in 2016. Including the two projects, the overall fiscal deficit is estimated at 16 percent of GDP, down from 22 percent in 2015. The current account deficit remained large at 29 percent of GDP, financed mainly by borrowing and foreign direct investment. The currency board's coverage is comfortable, with the ratio of reserves-to base money estimated at 109 percent in 2016 while official international reserves reached 3.4 months of imports. Although the real exchange rate appreciated by about 1.2 percent in August 2016 y-o-y, it stayed close to its 2010 level reflecting favorable inflation differentials with trading partners. The currency board arrangement has helped instill confidence and improve predictability in international transactions.²
4. **Despite this robust economic growth, a big part of Djibouti's population does not benefit or contribute to it.** The overall unemployment rate³ was estimated by the authorities' survey of employment, the informal sector, and household consumption at 39 percent in 2015 (latest data available). The young population—75 percent are younger than 35—seems to suffer as their unemployment is much higher than the overall unemployment rate (76 percent). In addition, gender inequality in the labor market remains substantial, with only 29 percent of women aged 15 to 64 active in the labor market and only 54 percent of women with at least three years of university studies in the labor market (compared to 76 percent of men).⁴ Disparities are very large between male and female participation rates,

¹ Djibouti: 2016 Article IV Consultation (IMF Country Report No. 17/87)

² Djibouti: 2016 Article IV Consultation (IMF Country Report No. 17/87)

³ In the national definition, an unemployed is a person of 15 to 54 years of age, who has not worked for 7 days, is available to work, and has been looking for a job during for at least 30 days

⁴ IMF WP/ 17/270



with women characterized by substantially lower participation rates.⁵ It is higher among women (49 percent) than men (34 percent), and in rural areas (59 percent) than in urban areas (37 percent).

Sectoral and Institutional Context

5. **Djibouti also faces sectoral challenges that constrain inclusive growth, notably an under developed private sector.** The public sector—which is already oversized—cannot generate enough jobs for new entrants and the unemployed. The public sector provides 60 percent of jobs, of which 46 percent in the central government and 14 percent in public enterprises. The private sector employs 30 percent (10 in the formal and 20 percent in the informal sector) and the remaining 10 percent are self-employed.⁶ Moreover, economic growth in the past few years has been driven by capital-intensive investment in the ports and related activities, with limited trickle-down effects. Many of the jobs created have been taken by expatriates, because of a low domestic skills base.
6. **To stimulate private sector development, the authorities have taken concrete steps to improve the investment climate.** Based on the DB indicators, Djibouti was ranked 154 out of 190 countries in 2018. In the past few years, Djibouti: (i) made property registration faster, (ii) made resolving insolvency easier by adopting a new commercial code, (iii) strengthened its secured transactions system by adopting a new commercial code, and (iv) made starting a business easier by simplifying the company name search and by eliminating the minimum capital requirement, as well as the requirement to publish a notice of commencement of activities. Further advances in starting a business were made in 2016-17 with the opening of “one-stop shop” for company registration.
7. **Despite these improvements, however, the financial sector does not effectively support economic growth and job creation.** Djibouti’s financial system cannot adequately support the economic growth of the private sector. There is a low banked population, low penetration of microcredit, insufficient share of credit to the private sector as a percentage of GDP, and low diversification of market players. Between 2005 and 2015, despite an increase in credit to the private sector as a percentage of GDP from 20% to almost 30%, the number of jobs created was very modest.⁷ Informal enterprises represent about 60% of the Djiboutian economy. Most of them are individuals, unstructured and concentrated in commerce, import-export, building and small miscellaneous services. For project promoters or existing SMEs, very few support structures exist to support them in creating or supporting their activities.
8. **Because banks have a high perception of risk to lend to MSMEs, there are limited options for finance for potential entrepreneurs and MSMEs.** The gap is still substantial between average lending and deposit rates, which are respectively 13 percent and 3 percent. Considering the fairly low levels of inflation and the low cost of funds, the cost of credit substantially reflects banks' risk premium. Banks apply high lending rates and/or require substantial collateral owing to the significant risk of default associated with small and medium-scale enterprises because of information asymmetry, deficiencies in the credit reporting system, lack of credit histories, and the absence of reliable financial statements. Collateral is required for 84 percent of loans in Djibouti (compared to 79 percent in lower middle income countries), and banks require, on average, 228 percent of the loan application amount in collateral (compared to 190 percent for MENA and 179 percent for Sub-Saharan Africa). Further reflections of banks’

⁵ IMF Working Paper No. 17/270

⁶ Djibouti Department of Statistics and Demographic Studies (DISED), 2016, Enquête sur l’emploi, le secteur informel et la consommation des ménages (EDESIC 2015–16) ; Situation de l’emploi à Djibouti en 2015.

⁷ World Bank Rapid Financial Sector Assessment – Mission Aide-Memoire, December 2017



heightened risk perception include the 2 percent fee for the registration of collateral for mortgage loans and another 2 percent fee for the release of collateral.⁸

9. **Young people – many of whom are potential entrepreneurs and employees of MSMEs - are particularly vulnerable to being excluded from the formal financial system and participating in the private sector.** While access to primary and secondary education has improved considerably over the past decade, school dropout after primary remains high and literacy low, especially in rural areas. Most youth do not partake in the formal economy and unemployment is likely above 70 percent for young people under the age of 30. Despite the labor market's increasing need for technicians, supervisors, and employees able to speak various languages, especially English, the supply of vocational training opportunities is not keeping up with increasing demands. Moreover, the quality of such training leaves room for improvement and training delivery is fragmented among several ministries and NGOs. In addition, the training sector is characterized by low enrollment capacity, a strong urban bias, long programs, and a non-professional teacher corps.⁹
10. **Women are also at a particular disadvantage to access economic opportunities and face difficulties launching formal enterprises.** Women face additional burdens associated with low literacy and school enrollment and high economic inactivity. Female literacy stands at about 39.5 percent (compared to 60.1 percent for men), and drops to 22 percent outside the capital city.¹⁰ While women represent 39% of the active population in Djibouti, according to the Global Partnership for Financial Inclusion (GPFI) and IFC, women typically run small and informal firms in lower value-added sectors, which offer smaller returns to creditors, thus impeding their access to finance.¹¹ Some small-scale support programs, life skills training and entrepreneurship skills seem to be paying off, but these women entrepreneurs then face difficulties accessing finance and actually launching formal enterprises.
11. **There are, however, windows of opportunity for women's economic empowerment.** According to community consultations and qualitative research compiled for the World Bank's IDA-financed Social Safety Nets program, over 57% of inactive women say that they do not work because of family and household responsibilities. However, the findings also indicated that women and girls are generally not discouraged or prevented from accessing training or work opportunities by male family members, and there are no legal barriers against female entrepreneurship. Moreover, the findings confirmed that women largely manage the household income and have shared decision making power over the allocation of expenditures, which suggests that additional income generated by women could directly enhance their economic empowerment within the household and foster food security and intergenerational transfers.¹²

ENTREPRENEURSHIP ECOSYSTEM

12. **Entrepreneurship¹³ has strong potential to generate employment for all working age people – and especially the young and women - in all regions of Djibouti.** There are more opportunities for micro-entrepreneurship in Djibouti than in the more developed market economies in the sub-region, but the existing gaps in the core skills of potential entrepreneurs do not allow them to embark on successful entrepreneurship. Start-up capital, whether in the form of

⁸ IMF Country Report, Djibouti Selected Issues Paper, No.16/249, July 2016

⁹ World Bank Project Paper, "Djibouti Enhancing Income Opportunities", February 25, 2015 (Report No: 94503-DJ)

¹⁰ World Bank Report No: 94503-DJ

¹¹ IFC Report "Ready for Growth: Solutions to Increase Access to Finance for Women-Owned Businesses in the Middle East and North Africa", May 2013

¹² World Bank Report No: 94503-DJ

¹³ Entrepreneurship is a globally recognized phenomenon lacking a single precise definition. Klapper, Amit, and Guillen (2010) describe how, from a practitioner standpoint, entrepreneurship is generally understood as a process of creating new wealth, but for the purpose of measuring entrepreneurship, the definition narrows to the initiation of economic activities in the form of a legal (formal) enterprise.



loans or, for the poorest, in the form of grants, which are essential for launching entrepreneurship, is crucially lacking. The decision to launch is therefore out of reach for many potential market players (e.g. for personal services or the production of small commodities).

13. **The IMF notes that, in Djibouti where the majority of the population is under 35 years old and services are the driving sector of the economy, policies focused on upgrading in-demand skills, especially for young adults, and improving conditions for SMEs to enter the formal economy are likely to make an important contribution to job creation.** Investment in education is likely to be very important for inequality as it could improve youth and female employment opportunities. The emphasis should be on ensuring that the labor force is trained for the needs of the job market, and that Djibouti nationals—rather than expatriates—are prepared to take the jobs created during the investment boom.¹⁴
14. **At a higher level, Government efforts to enable business registration through a one-stop-shop (with support from the World Bank), and the upcoming construction of a new Entrepreneurship Center (with financing from the Government of India) have been steps in the right direction.** The Chamber of Commerce and other private associations have spearheaded the development of entrepreneurship activities in the country. A few Technical and Vocational Education and Training (TVET) programs and universities now provide structured entrepreneurship training programs, albeit at a relatively low scale. The High Council of Public-Private Dialogue chaired by the Head of State, set up in 2014, has potential to boost private sector participation in economic development.
15. **On a more direct level, the priority of the Chamber of Commerce of Djibouti (CCD) – the main service provider for entrepreneurs – has been to increase the competitiveness and change the business practices of Djiboutian companies but they lack budget and capacity.** The CCD is a training provider and provides support to businesses startup. It offers a good suite of capacity development tools for formalization, accounting, and access to finance. However, but despite solid partnerships with other entities such as the Club of Entrepreneurs (which contributes to support networking, mentorship and entrepreneurship skills trainings), it still lacks enough budget and capacity to deliver its services at scale. The Chamber is also trying to further develop its gender-based programming. This has been done so far in conjunction with the Ministry of Women and Family Affairs through entrepreneurship TVET programming delivered by the Centre d'aides sociales et d'autonomisation des femmes (CASAF). This focus on women was initiated as part of the the Politique Nationale de Promotion du Genre (PNPG) 2011-2021 which promotes gender equality.
16. **In terms of finance, microfinance – traditionally a source of financing for potential entrepreneurs and MSMEs (especially women and youth) – is notably underdeveloped and difficult to obtain.** A recent assessment completed by the World Bank found that the universe of microfinance borrowers is exceptionally small (1,011 exactly) compared to the potential (about 150,000 users - borrowers and simple depositors). In terms of outstanding loans, microfinance represents FDJ 130 million, or just 0.04% of the total outstanding financial sector. The national microfinance organization, Caisse Populaire d'Epargne et de Crédit (CPEC), a network of three sub-national financial cooperatives created in 2011 as a result of a merger of previous microfinance providers, has approximately 15,000 member clients (3 percent of the adult population). The CPECs offer two types of loans: i) solidarity (3 to 6 members, monthly interest rate of 1.5% per year); loans between FDJ 50,000 and FDJ 300,000 (approximately US\$280 to \$5,590) and ii) individual

¹⁴ IMF WP/17/270



(monthly interest rate of 2% per month) and loans between FDJ 300,000 and FDJ 1,000,000 (approximately US\$1,670 to US\$5,590). Solidarity credits represent 70% of the CPEC portfolio.¹⁵

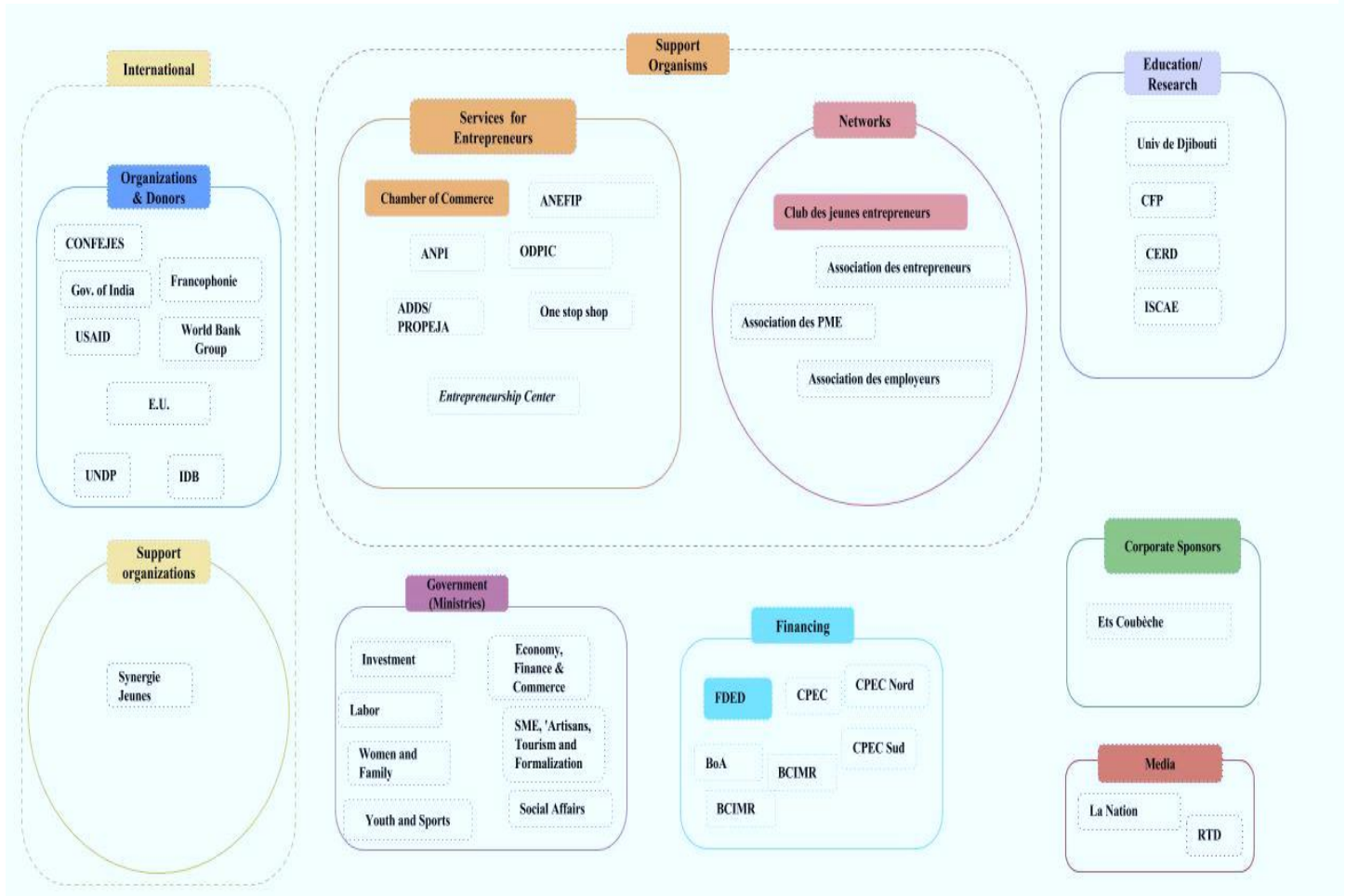
17. **In 2016, the Government passed a presidential decree establishing an MSME Partial Credit Guarantee Fund (PCG) a mechanism which would reduce risk for commercial banks to grant loans to MSMEs, but it has yet to become operational.** The World Bank provided technical assistance (through a grant from the FIRST trust fund) to support the design of the PCG Fund and included the development of (i) a proposal for the governance and institutional structure of the PCG Fund, (ii) a funding plan to include capitalization needs over a 5-year horizon, (iii) draft regulations and oversight framework for the Central Bank of Djibouti (CBD) in governing the activities of the PCG Fund, and its establishment, and (iv) guidelines for the operations of the PCG Fund. A PCG Fund provides third-party credit risk mitigation to lenders while increasing access to credit for MSMEs. In case of default, the fund mitigates risk by absorbing a portion of the lender's losses on the made loans. The IMF recently noted in its 2016 Article IV that the establishment of this Fund should be accelerated and that its risk sharing principle should encourage banks to grant loans to SMEs and promote formalization.
18. **Furthermore, the state-sponsored Djibouti Economic Development Fund (FDED) whose mission is to grant financing to SMEs, particularly those that cannot find financing through traditional commercial means, is unable to adequately meet the needs of entrepreneurs and MSMEs (even with targeted interventions).** Several funding programs have been implemented by the FDED since its inception (such as the "graduates" program in 2010). The fund, which manages an outstanding loan of FDJ 7 billion, has financed only 525 projects (including 50 "young graduates") of which about 50% are unable to repay. The FDED's current product offering does not seem to correspond to the needs of MSME borrowers, especially women and youth. The youth loan they offer has high loan amounts of FDJ 3.58 million – 7.16 million (approximately US\$20,000-40,000) with a minimum personal contribution of 20 percent.
19. **Overall, while entrepreneurship has become a focus area for the Government of Djibouti, they still lack coherent targeted interventions which render the ecosystem not yet conducive to effectively and efficiently support entrepreneurs and MSMEs.** There have been fragmented activities and interventions by the government and global development community (See Annex 1 – October 2017 Draft Entrepreneurship Ecosystem Review¹⁶). The promotion of entrepreneurship is currently divided between different actors in the public sector (numerous) and private (few). Preliminary mapping of the different actors of this entrepreneurial ecosystem in Djibouti is presented below. The result is a nascent but fragmented ecosystem, which supports entrepreneurs on an ad hoc basis primarily in ideation, and where actors act largely uncoordinated, if not overlapping.

¹⁵ World Bank Report No: 94503-DJ

¹⁶ This Review is currently based on a mission conducted in October 2017 by the World Bank, and is currently in draft form. It will be finalized by February 2018.



Figure 1. Djibouti Entrepreneurial Ecosystem Map



COMPETITIVE INDUSTRIES

20. **Djibouti has strong potential to position itself as an industrial and commercial hub for the region, which will support private sector development to drive economic growth.** Djibouti benefits from a number of preferential policies, such as AGOA (Africa Growth Opportunity Agreement), EBA (Everything But Arms) and COMESA (Common Market of East and South Africa) which, can facilitate the creation of a processing and manufacturing export hub around the port. The establishment of the new Djibouti-Ethiopia Railway will greatly enhance the logistics efficiency and transport capacity between the two countries, with possibilities for Djibouti to invest in the processing and packaging of light manufacturing goods. Through the port and new industrial park (special economic zone), Djibouti is positioning itself as one of the main doors to Africa in the context of China's one belt one road initiative. In this regard, the massive Chinese investment into the zone could potentially boost a number of sectors, namely: 1-Logistics (Logistics Transportation, Storage and Distribution); 2-Trading (Bonded Bulk Commodity Exchange, Exhibition, Duty-free Retailing); 3-Manufacturing (Packaging, Processing, Printing,



Garments Making and Auto Parts Assembly); 4-Business Support (Financial Services, Information Services, Hotel, Training Center and other Agency Services).

21. **The realization of such a vision, however, will require strong inputs from and linkages with local MSMEs and for the government to sustain a strong investment promotion program.** Economic diversification can help improve inclusiveness. Diversification is essential for Djibouti to develop sectors with high growth and employment potential such as tourism and fishing, and reduce the risks associated with relying on a single sector (services) catering mainly to one client (Ethiopia).¹⁷ This should include the elaboration and implementation of a strategy to attract export-oriented foreign investors which can produce goods with consistent quality and deliver these goods in a timely manner. This should be coupled with an export-marketing effort to persuade foreign firms, which are currently outsourcing to international buyers in other countries, to relocate their production to Djibouti. Success will depend on the development of local entrepreneurship and a vibrant private sector.
22. **In recent years, the Government of Djibouti launched several initiatives to encourage to encourage foreign direct investment (FDI).** Efforts include strengthening the Chamber of Commerce, establishment of business curricula in universities, and preparation of an industrial park. To drive economic transformation, a new 5-year fast growth and employment generation strategy (Stratégie de Croissance Accélérée et de Promotion de l'Emploi (SCAPE)) was developed by the Government in 2015. It sets out four strategic axes to accelerate growth and generate employment: (i) economic growth, competition and the leading role of the private sector, (ii) development of human capital, (iii) public governance and reinforcement of institutional capacities; and (iv) regional and sustainable development.
23. **Djibouti further needs to align its industrialization agenda, which is being implemented in part by the development of a large industrial park through Chinese investment, and attracting FDI in the manufacturing sector with its domestic linkages and job creation objectives.** Sectoral studies point to the potential of specific sectors such as fisheries, light manufacturing (garment, small electronics) or ICT services, which will soon be supported by new infrastructure such as the new free zone Djibouti. The service sector for the military zones, or for the new free zone, will also present new opportunities.
24. **Harnessing the transformation power of the private sector through the promotion of entrepreneurship is critical for Djibouti.** Djibouti needs to urgently address the low level of private investment in small manufacturing and higher-level services, the limited promotion of entrepreneurship particularly among youth and women, the low level of job creation in rural areas in non-farm activities and limited SME development in supply-chain manufacturing for sectors with deep added-value, which could be enhanced by an export-oriented strategy.

Relationship to CPF

25. **The proposed project fits within the World Bank Group's twin goals of ending extreme poverty and boosting shared prosperity, and Maximizing Finance for Development.** The proposed project supports Pillar 2 of the CPF FY14-18, which identifies strengthening the business environment and increasing access to finance as key outcomes. A systematic country diagnostic (SCD) and a new CPF for FY19-23 are currently under preparation. Furthermore, by supporting the establishment of a PCG fund which will reduce risks for banks and encourage commercial financing to flow to women and young entrepreneurs, the proposed project supports the Maximizing Finance for Development

¹⁷ Djibouti Selected Issues Paper, IMF Country Report No. 16/249



(MFD) approach. By supporting a PCG Fund, the project will leverage the private sector and optimize the use of scarce public resources to demonstrate that women and youth can be bankable in Djibouti, and the experience will demonstrate to banks that these groups are credit-worthy beyond the life of the guarantee.

26. **The proposed project supports the “Renewing the Social Contract” Pillar of the MNA Regional Strategy to promote broad based private sector development and strengthen skills that match market demands.** These skills and sets of behavior also play a critical role in building greater resilience to all sorts of economic and social shocks that may come. The proposed project also aims to play a role in strengthening public institutions for more efficient and effective service delivery through the reinforcement of various government entities responsible for the promotion and financing of entrepreneurship and competitive industries.
27. **The proposed project supports the objective of the FCI gender action note for FY18-20 which is to deepen the GPs commitment to gender equality in financial markets and financial sector development, and reduce the gender disparity in access to finance.** The project will support the gender strategy’s main pillars of (i) removing constraints for more and better jobs; (ii) reducing barriers to women’s ownership of and control over assets; and (iv) enhancing women’s voice and agency. Specifically, the proposed project also embodies the GP-supported interventions of “investing in sex-aggregated data”, “Clearly evaluate and address gaps in access faced by women in projects”, “Be focused and strategic including through the development and implementation of projects and advisory that target women’s financial access”.¹⁸
28. **The proposed project supports the Government of Djibouti’s approach to development as articulated in Vision 2035. In 2014, Djibouti launched its “Vision 2035” – a long-term strategic vision for the development of the country.** One of the country’s goals under this vision is to transform Djibouti into a middle-income economy by 2035. This will require sustaining exceptionally rapid and inclusive growth for close to two decades. Although the authorities’ strategy does not specify the exact quantitative parameters of a middle-income economy, according to the IMF, its target of tripling Djibouti’s GDP per capita—from the current level of about US\$1,700 to above US\$5,000¹⁵—would require a sustained annual GDP growth rate of about 7 percent. While this is a very high growth rate relative to the current Djibouti’s growth estimated at 5-6 percent, it may yet be achievable based on the experience of comparable countries (Armenia, Cape Verde, and Vietnam) that have successfully maintained such rates for at least a decade in the recent past.¹⁹ In addition to supporting the cross-cutting themes of promoting women’s conditions and reducing gender inequality, and supporting youth, the Vision statement focuses on five pillars representing the country’s key development challenges, including “a diversified and competitive economy with the private sector as its engine of growth: diversified growth, with the private sector driving a new growth model; financial market development; supply chain improvements.”

C. Proposed Development Objective(s)

29. The project’s development objective is to increase access to services, finance, and markets for targeted entrepreneurs.
30. **Project beneficiaries:** All project beneficiaries must be young entrepreneurs (17 to 37 years). In addition, women and young entrepreneurs in competitive sectors with local added value will be target beneficiaries. To participate in

¹⁸ Previously the Finance & Markets GP Gender Practice Note (FY18-20)

¹⁹ Djibouti’s Quest for Inclusive Growth (IMF Working Paper No. 17/270) (December 2017)



project-supported activities, prospective beneficiaries must meet basic eligibility criteria. The project will also be open to beneficiaries of the ongoing PROPEJA Project. Intermediate beneficiaries will be entities of the entrepreneurship ecosystem that provide support and financing to entrepreneurs and MSMEs such as mentoring programs, training programs, project development support, and advisory services.

Key Results (From PCN)

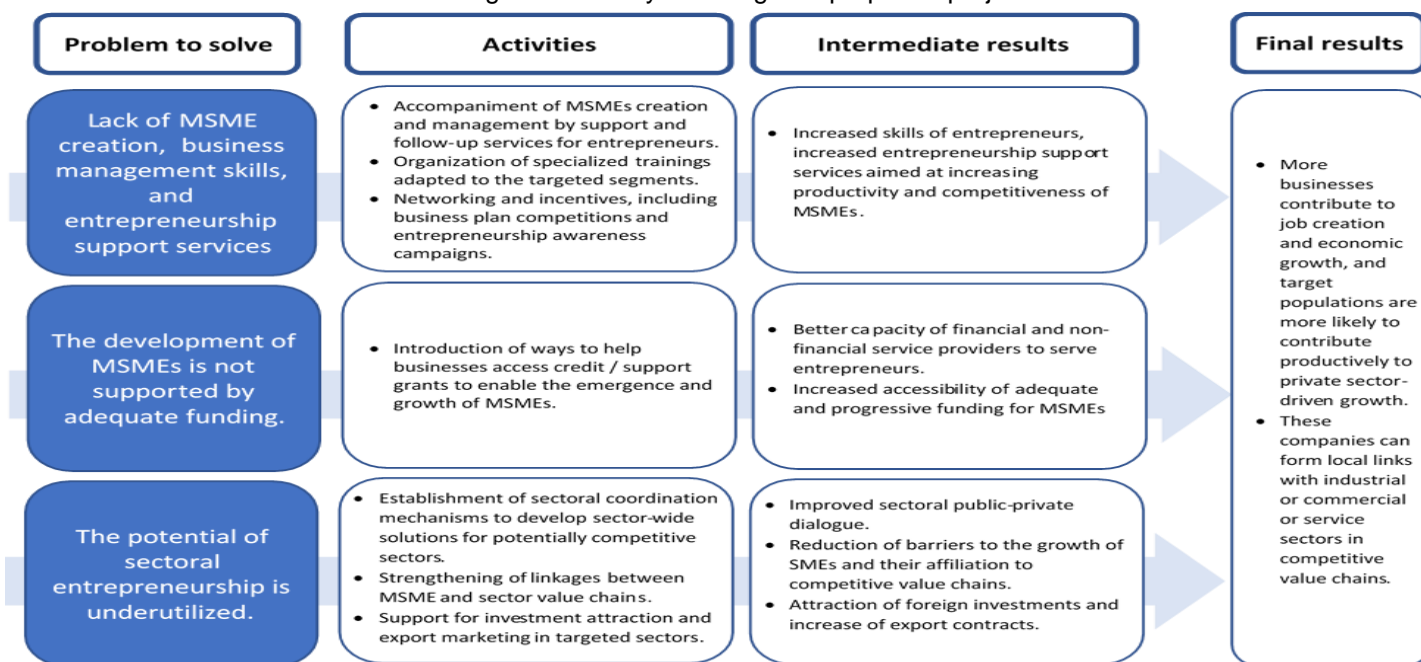
31. The PDO will be measured through the following Results Indicators:

- (a) Number of companies established by entrepreneurs accessing project-supported services (% female)
- (b) Number of MSMEs that receive financing through guarantees supported by the project (% female)
- (c) Private direct finance mobilization (through guarantees supported by the project)
- (d) Removal of barriers to entry and development for entrepreneurs in competitive sectors with local added value
- (e) Number of business matching opportunities between entrepreneurs and new business partners

D. Concept Description

32. The project seeks to support activities that will favor the creation of new and high-performing companies, and the employability of young people and women who can create SMEs, including in competitive sectors with high added value. The project is based on the following rationale:

Figure 2. Theory of change for proposed project



33. In terms of support for women and young entrepreneurs and the ecosystem in which they operate, the project plans to support entrepreneurship at the level of activation, dynamization and stimulation:



- **Awakening (not treated by the proposed project):** During this phase, and to reinforce skills, professional training must be put in place to give the target populations the opportunity to consider the creation or participation in a MSME. This type of activity is usually accompanied by information campaigns on entrepreneurship. The awakening phase, aimed at identifying and training project leaders in the youth and women populations, is already supported in Djibouti by the World Bank program "youth employment promotion and crafts project" (PROPEJA), whose lessons can be applied to this project. This project will not address directly the awakening phase.
 - **Activation:** Once trained, women and young entrepreneurs must be able to access services within a functioning and clear support ecosystem. This activation phase should include support for registration, networking to access mentors, help with "start-ups" through incubators that can help them to consolidate and access information and training services, as well as start-up funding to help small businesses get started.
 - **Dynamization:** The dynamization phase allows MSMEs to develop and grow with the introduction of financing, services of connection with specialized or local value chains or export, and certified training focused on development functions (eg human resources, marketing, financial management, inventory management, etc.).
 - **Stimulation:** The stimulation phase, which implies the country has a sector identification and development policy, helps create MSMEs play a role in competitive sectors which are supported where necessary by sectoral coordination, the promotion of foreign direct investment, export, the creation of poles of growth, and financing and fiscal incentives allowing productivity gains in the targeted sectors.
34. In terms of improving access to finance for women and young entrepreneurs, the project plans to support the capitalization of the planned MSME partial credit guarantee fund. The planned MSME PCG Fund already has an existing legal and regulatory framework. The project will build on the work already done to establish this mechanism, and make it active.
35. The project has three primary components, each aimed at addressing critical factors in entrepreneurship development:
36. **Component 1: Activation phase - Support services for activating and boosting entrepreneurship (\$6M)**
- Entrepreneurs who are considering creating their own MSME, or who currently have one and want to grow it, must be able to access entrepreneurial support services within an ecosystem that supports the start-up of companies and their integration within value chains.
- A. Strengthening support ecosystem services and support to MSMEs (\$2M).**
- Development of a national strategy and action plan for the development and support of entrepreneurship, to clarify the role of each player in the ecosystem and provide impetus and cohesion to this issue at national level. (\$0.2M)
 - Creating a virtual one-stop shop for services to entrepreneurship, to increase the current visibility of the ecosystem to help guide entrepreneurs and find support adapted to their situation and to strengthen the sense of community among them. (\$0.3M)
 - Increasing the capacity of the Chamber of Commerce of Djibouti in the implementation of their programs to support entrepreneurs. This includes budget support to increase the amount and quality of proposed activities, through specialized technical expertise by consultants to implement the increased business



development services (BDS). Such BDS might include collection of market intelligence, potentials and opportunities, project profiles, procedural aspects and requirements during business incorporation, operations, marketing and sales, legal and regulatory requirements, banks programmes and support to obtain bank credit for business expansion, exports policies, etc. (\$1M)

- Support for the Entrepreneurship Center by helping to develop its strategy, positioning, and provision of additional R&D services, particularly regarding business incubation. (\$0.5M)

B. Capacity building of existing and potential entrepreneurs by competitions, specialized trainings, and grants (\$4M).

- Business plan competitions: The business plan competition cycle will include three distinct phases: (i) awareness to entrepreneurship issues, calls for candidacy, selection; (ii) competition including capacity building in the development of business plans, preparation of business plans with mentors, selection of best plans and awards (awards to be financed by component 2 of this project); and (iii) post-competition operational follow-up. This sub-component contains communication and networking activities on entrepreneurship and attached services. (\$1M)
- Vocational business training: Entrepreneurship vocational training must be effectively implemented to provide the target populations with the opportunity to consider the creation and the growth of MSMEs. This sub-component will enable the implementation of specialized entrepreneurship training programs which will complement the program PROPEJA through training focused on business development, accounting, and growth functions (e.g. human resources, marketing, long-term financial management, inventory management, supply chain linkages, etc.). (\$1M)
- Concept development and commercialization grants for women and young entrepreneurs (up to FDJ 500,000 each): Before the business idea has reached the stage where it can be offered to external commercial parties as a funding opportunity there is often the need to spend on proof of concept and early development work to shape the business idea. Grants will only be for those businesses who are formally registered, and as such the grants could incentivize formalization. Eligible activities under these grants may include, development of the prototype, proof of concept, market survey and business plan development. Commercialization converts ideas, research, or prototypes, into viable products that can be sold in the market. Eligible activities under these grants may include: i) market testing/piloting (ii) registering intellectual property/obtaining patents (iii) refining the product, and iv) registering/setting up the company. (\$2M)

37. Component 2: Dynamization phase – Increasing access to finance for MSMEs (\$5M)

Entrepreneurs must be able to access adequate financing to start and grow their companies. Commercial banks must be assisted to overcome heightened perceptions of risk to extend credit to these borrowers. A PCG Fund provides third-party credit risk mitigation (in this case from the state) to lenders while increasing access to credit for MSMEs. In case of default, the fund mitigates risk by absorbing a portion of the lender's losses on the made loans. The use of a partial credit guarantee fund – based on international best practices and adapted for the Djibouti context – will enable participating commercial banks to increase the number of loans they provide to women and young entrepreneurs and MSMEs. This component directly leverages public resources to bring in private sector financing for SMEs, as well as builds upon existing institutional



mechanisms, to achieve financial additionality.²⁰

- Capitalization of the MSME Partial Credit Guarantee Fund (\$4.5M) to support an adequate initial allocation to achieve the objectives of increasing access to commercial finance for women and young entrepreneurs. The PCG Fund should have adequate capital and government financial support to ensure effective implementation of its operations and to achieve meaningful outreach and additionality with financial sustainability. Setting up a PCG Fund with inadequate financial resources can result in a limited developmental effect and a lack of financial sustainability, thereby seriously undermining the confidence of lenders and endangering the achievement of the PCG's policy objectives.²¹
- Technical assistance for the MSME PCG Fund (\$0.5M) to support an international consultant to provide assistance for the operation of the PCG Fund for one year. Support will include for governance based on international best practice (and the World Bank's recently developed "Principles for Public Credit Schemes"), creation of a Board, engagement with commercial banks, plan for private co-financing, etc.

Eligibility criteria, evaluation and selection process as well as monitoring and evaluation of activities under this component will be specified in the Project OM. Intermediaries will be required to adopt the OM and provide the required monitoring and reporting to the PIU.

38. **Component 3: Stimulation phase – catalyzing and enabling entrepreneurship in competitive sectors (\$3M)**

In order for Djibouti's entrepreneurship to develop in a sustainable and growing way, it is important to focus economic activities on promising sectors whose export orientation can be based on sectors with high local added value allowing employment of young people and women. Several activities are possible to stimulate these sectors - as well as the services and goods necessary to supply the area - and to allow Djiboutian entrepreneurs to benefit from the foreign investments that will be established within this free zone and therefore to capitalize on access to international markets and large regional consumer markets such as Ethiopia.

A. Sectoral policy and cluster coordination (\$1M)

- Sectoral round tables to identify and formulate sectoral support projects through public-private dialogue (including with strengthened industry associations) and ensure coordination, monitoring and evaluation of policies and projects. This includes capacity building activities with relevant business associations and well as consultant services to provide technical inputs on sectors. (\$0.5M)
- Support for the development of business linkages and sector support policies to implement stimulus or regulatory programs aimed at improving investment and productivity in targeted sectors. This includes supporting clusters and the building of business linkages programs between MSME and commercial producers serving the local, regional or international growth sectors, as well as feasibility studies for new policies as per the sectoral round tables. (\$0.5M)

B. Support for investment attraction and export marketing through an Export Marketing and Matchmaking Function (EMMF) (\$2M)

²⁰ Financial additionality refers to incremental credit volumes granted to eligible SMEs as a result of partial credit guarantee activities. Financial additionality also includes more favorable conditions for eligible SMEs in loan size, pricing and maturities, reduced amount of collateral required to obtain credit, and faster loan-processing time

²¹ The World Bank and FIRST Initiative. 2015. Principles for Public Credit Guarantee Schemes for SMEs



- Implementation of the country's strategy to attract foreign investors in export oriented supply chains. The drafting of this strategy will be done under the existing World Bank Project GoPro, and the proposed project will assist with its implementation. This includes reinforcement of capacity of the National Agency for Investment Promotion in cataloguing investment opportunities, providing business linkages services and ensuring aftercare for investments, especially but not restricted to those pertaining to the new industrial park. (\$1M)
- Establishment of an Export Marketing and Matchmaking Function (EMMF) to promote the "Made in Djibouti" and persuade international buyers which outsource to other countries to relocate part of their production as well as increase their purchases in Djibouti. This consists in targeted outreach programs with global purchasers, including in industry trade shows with delegations of Djiboutian private sector representing a sector. The EMMF will promote Djiboutian sourcing from international buyers for strategic agricultural, industrial and/or service sectors as well as for sector permeable to women and youth employment. Sectors of focus are to be based on criteria mentioned above, are to be agreed between the Government, the private sector, and development partners, and as per the Djibouti's Investment Promotion Strategy components on sector competitiveness and business linkages. (\$1M)

39. **Component 4: Project Management (\$1M)**

This component will support three main types of activities: a) impact evaluation; b) the institutional strengthening of the relevant technical departments (within the Ministry of Finance and any associated Ministries) and Executing Agencies in charge of the implementation of Components 1, 2, and 3 including capacity building also for monitoring and evaluation, additional human resources, selected equipment and operating costs; and c) support to the project's PIU, including additional staff for project coordination, fiduciary processes, monitoring and evaluation (M&E), selected equipment and operating costs.

SAFEGUARDS

A. Project location and salient physical characteristics relevant to the safeguard analysis (if known)

The majority of the activities will take place in Djibouti-ville

B. Borrower's Institutional Capacity for Safeguard Policies

The Borrower's insitutional capacity for safeguard policies has not been assessed yet. An ESMF that provides a list of ineligible sub-activities, a screening mechanism, and monitoring and reporting system will be required regardless of the implementing agency. It will be important to ensure that the program establish a mechanism that ensures transparency and accountability in the selection process through clear selection criteria of the benefiting MSMEs as well as publicize its grievance redress mechanism. This ESMF will include an Executive Summary in both English and French, all of which must be reviewed, cleared, and disclosed by MEFI and the World Bank prior to appraisal.

C. Environmental and Social Safeguards Specialists on the Team

Antoine V. Lema, Social Safeguards Specialist



Mohamed Adnene Bezzaouia, Environmental Safeguards Specialist

D. Policies that might apply

Safeguard Policies	Triggered?	Explanation (Optional)
Environmental Assessment OP/BP 4.01	Yes	<p>Under component 2, the use of a partial credit guarantee fund will enable participating commercial banks to increase the number of loans they provide to women and young entrepreneurs and MSMEs. The sub activities that may be financed are expected to have limited environmental or social risks associated with them. However, it is recognized that there may be some business activities in which the environmental and social risks and impacts may be triggered (although the scale will be limited due to the size of the SMEs) and require assessment and management, for example, labor and working standards, inappropriate disposal of wastes, or unhealthy or hazardous working conditions. The Project Financial Intermediaries (PFIs) are exposed to some level of environmental and social risk through the activities of their investees; therefore, an Environmental and Social Management Framework (ESMF) that provides a list of ineligible sub-activities, Eligibility criteria, evaluation and selection process as well as monitoring and evaluation of activities under this component will be specified in the Project OM. Intermediaries will be required to adopt the OM and provide the required monitoring and reporting to the PIU.</p> <p>The ESMF will also cover the concept development and commercialization grants under Component 1. Expected sectors for financing include services, retail, ICT, tourism, fisheries. Category A-type subprojects will be excluded.</p> <p>It is not expected that activities under the TA will have E&S impacts. Any potential impacts will be included as relevant E&S considerations in the TOR.</p> <p>The team plans to use the existing GRM mechanism that was created for the PROPEJA project.</p>
Natural Habitats OP/BP 4.04	No	<p>This policy is not triggered as the project will not involve work in natural habitats or protected areas. All sub activities will take place in the urban area of Djibouti Ville</p>
Forests OP/BP 4.36	No	<p>This policy is not triggered as the project will not involve work in forests or their rehabilitation nor will support other investments which rely on services of</p>



		forests. All sub activities will take place in the urban area of Djibouti Ville
Pest Management OP 4.09	No	The project will not imply the use of pesticides or other related products
Physical Cultural Resources OP/BP 4.11	No	The proposed operation is not expected to pose risks of damaging on the existing community cultural property. Nevertheless, ESMF will analyze the project zones and measures to be followed if these properties will be discovered during project implementation. Cultural property and chance find procedures will be applied and appropriate mitigation measures for both the identification and protection (from theft, mistreatment of discovered artifacts) of cultural property. While not damaging cultural property, project preparation may later identify and include assistance for preservation of historical or archeological sites. If these opportunities occur, cultural property management plans would be prepared for this projects
Indigenous Peoples OP/BP 4.10	No	
Involuntary Resettlement OP/BP 4.12	No	There will not be funding provided for projects that will induce land acquisition. A negative list of sub-projects not to be funded will be established; projects inducing land acquisition will be part of that list
Safety of Dams OP/BP 4.37	No	The project will not construct or rely on dams
Projects on International Waterways OP/BP 7.50	No	The project will not affect international waterways
Projects in Disputed Areas OP/BP 7.60	No	The project is not located in a disputed area

E. Safeguard Preparation Plan

Tentative target date for preparing the Appraisal Stage PID/ISDS

Mar 27, 2018

Time frame for launching and completing the safeguard-related studies that may be needed. The specific studies and their timing should be specified in the Appraisal Stage PID/ISDS

The safeguards instrument to be prepared prior to Appraisal is the ESMF, as provided in the OP 4.01 “Explanation”. The ESMF will be consulted and disclosed, including both physical and online disclosure.



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APPROVAL

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